FEDERAL HOUSING FINANCE AGENCY

NEWS RELEASE

For Immediate Release
May 3, 2013

Contact: Corinne Russell (202) 649-3032
Stefanie Johnson (202) 649-3030

FHFA Releases Fannie and Freddie Reports on Viability of Their Multifamily Businesses Without Government Guarantees

Washington, DC – The Federal Housing Finance Agency (FHFA) today released reports prepared by Fannie Mae and Freddie Mac (the Enterprises) on their multifamily businesses. The reports were conducted at the direction of FHFA pursuant to its goal of contracting Fannie Mae and Freddie Mac's overall market footprint and generating potential value for taxpayers. As part of the 2012 *Conservatorship Scorecard*, the Enterprises were directed to analyze the viability of their multifamily businesses absent a government guarantee and review the likelihood of these models operating on a stand-alone basis after attracting private capital and making any adjustments for pricing if needed.

The reports conclude that without government guarantees, the multifamily businesses of Fannie Mae and Freddie Mac have little inherent value. The reports further conclude that the sale of these businesses would return little or no value to the U.S. Treasury and to taxpayers. The reports also highlight the fundamental tensions inherent in the government sponsored enterprise model that policymakers will have to consider as part of housing finance reform.

Attachments

###

The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than $5.7 trillion in funding for the U.S. mortgage markets and financial institutions.

2012 Conservatorship Scorecard: The Enterprises' Reports on a Multifamily Future State Without a U.S. Government Guarantee

One of the goals in the Federal Housing Finance Agency's (FHFA) *2012 Strategic Plan for Enterprise Conservatorships* is to gradually contract the overall market footprint of Fannie Mae and Freddie Mac (the "Enterprises"). The basic premise is that with an uncertain future and a general desire for more private capital to re-enter the market, the presence of Fannie Mae and Freddie Mac in both the multifamily and single-family housing markets should be reduced gradually over time.

The multifamily lending businesses of Fannie Mae and Freddie Mac are fundamentally different from their single-family business lines. Multifamily loans are generally much larger than single-family loans, they are collateralized by income-producing properties of five or more units, and multifamily lending occupies a much smaller segment of the overall housing market. Moreover, unlike in the single-family market where Fannie Mae and Freddie Mac share risk only on certain loan types, most of the multifamily loans that the Enterprises buy involve some type of risk-sharing with private capital. Fannie Mae and Freddie Mac's multifamily businesses are also much less dominant in the marketplace than their single-family businesses and they generally weathered the housing crisis better, generating positive cash flow. New multifamily originations at the Enterprises increased during the financial crisis but have since returned to more normal levels.

Given these differences, FHFA determined that the goal of contracting Fannie Mae and Freddie Mac's overall market footprint should be approached differently with respect to their multifamily businesses, and it may be accomplished using a much different and more direct method. To evaluate how to accomplish this goal and generate potential value for taxpayers, in the 2012 Conservatorship Scorecard FHFA directed the Enterprises to undertake a market analysis of the viability of their multifamily operations without the government guarantee. Fannie Mae and Freddie Mac were asked to include in their reviews the likely viability of their multifamily business models operating on a stand-alone basis after attracting private capital and adjusting pricing if needed.

The reports from Fannie Mae and Freddie Mac (see attached) conclude that there is little inherent value in their current multifamily businesses without the government guarantee, and that the sale of these businesses without the guarantee would return little or no value to the U.S. Treasury and to taxpayers. In the early years after the sale, the new “stand-alone” businesses would primarily depend on the portfolio asset management fees as a primary source of revenue until their loan production activities were established. Without a government guarantee backing the securities they issue, Fannie Mae and Freddie Mac project that their multi-family businesses would likely occupy a much smaller footprint in the multifamily finance market, with reduced production volume. The businesses would likely be monoline niche specialty finance companies with a focus on non-prime lending and secondary and tertiary market transactions. Their cost of funds and lending rates would be higher and the businesses would rely on the private securitization market or the participation of equity investors to be viable.

While the magnitude of the market impacts cited in the reports deserve further study, the reports highlight a fundamental tension that policymakers will have to consider as part of housing finance reform. Without a government guarantee a fully private company may not provide the same level and scope of services in the marketplace, at least at current prices. For example, Fannie Mae and Freddie Mac conclude that lending on affordable multifamily housing properties, in particular those that satisfy the housing goals, or providing loans to small multifamily properties, may not be practical due to the high cost, relatively low profitability and difficulties with securitization. In addition, without a government guarantee, there may be additional volatility in funding availability under certain economic conditions, similar to other commercial real estate markets.

The reports themselves represent the analysis and views of the Enterprises’ current management teams as reported to FHFA as conservator. FHFA is releasing the reports to enhance public policy discussion of the role of the government in multifamily housing finance, not as an endorsement of the reports’ conclusions.

Without a clear policy path on the future of housing finance reform, including Fannie Mae and Freddie Mac’s role in the multifamily market, and given the limited availability of economically viable disposition options highlighted in the reports, FHFA must still provide direction as conservator and overseer of the Enterprises’ multifamily businesses. Consistent with the goal of contracting Fannie Mae and Freddie Mac’s dominant market presence, FHFA’s 2013 *Conservatorship Scorecard* put in place a 10 percent volume reduction for the Enterprises’ new multifamily business in 2013. Going forward, FHFA will evaluate how this process worked in 2013, and intends to consider options to continue a path of gradual contraction while awaiting a legislative resolution of the conservatorships.

Links to Reports:

Fannie Mae Report

Freddie Mac Report